

## Annex IV: Accreditation assessment of upgrade application from the Pegasus Capital Advisors, L.P.

### I. Introduction

1. Pegasus Capital Advisors, L.P. (PCA), is a private alternative asset management and private equity firm based in the United States of America, aiming to provide strategic growth capital to middle-market companies operating in the sustainability and wellness sectors. PCA focuses its investments on the health and wellness, built environment, renewable energy, waste and recycling, food and agriculture sectors.

2. The applicant was accredited by the Board on 20 October 2018 in decision B.21/16, paragraph (b), and signed its accreditation master agreement with GCF on 30 March 2020, which became effective on 13 April 2020, for the following parameters, as recommended by the Accreditation Panel (AP), under the fit-for-purpose approach of GCF:

- (a) **Access modality:** international access;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** medium;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management; and
  - (iii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** medium risk (category B/intermediation 2 (I-2)).<sup>3</sup>

3. The applicant was accredited with conditions. As reported in document GCF/B.25/13/Add.01 titled “Status of the fulfilment of accreditation conditions”, PCA fulfilled and closed one environmental and social safeguards (ESS) condition to be met prior to submission of the first funding proposal to GCF. The remaining fiduciary, ESS and gender conditions had been fulfilled and closed by the applicant as at 1 April 2020.

4. The applicant submitted its application for an accreditation upgrade to the Secretariat via the online accreditation system on 28 February 2020. Accreditation fees for the criteria being sought by the applicant were paid at the time of initial accreditation. The Stage I institutional assessment and completeness check was completed on 4 May 2020 and the applicant was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be upgraded for the following parameters under the fit-for-purpose approach of GCF:

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “medium” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of above US\$ 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” and intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

- (a) **Access modality:** international access;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** large;<sup>4</sup> and
- (d) **All other criteria for which the applicant was accredited:**<sup>5</sup> no change.

## II. Stage I institutional assessment and completeness check

5. The applicant applied and was assessed by the Secretariat during Stage I under the normal track accreditation process in accordance with the GCF policies and standards below:

- (a) “Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund’s fiduciary principles and standards and environmental and social safeguards” (decision B.07/02);
- (b) “Guidelines for the operationalization of the fit-for-purpose accreditation approach” (decision B.08/02);
- (c) “Policy on Prohibited Practices” (decision B.22/19);
- (d) “Anti-Money Laundering and Countering the Financing of Terrorism Policy” (decision B.18/10); and
- (e) “Policy on the Protection of Whistleblowers and Witnesses” (decision B.BM-2018/21).

### 3.1 Legal status, registration, permits and licences

6. The applicant provided documents on its establishment and licences to operate, if any and where relevant, as a part of the original accreditation application. PCA was created in the form of a limited liability company on 30 March 1999. As indicated in paragraph 2 above, GCF and PCA have entered into an accreditation master agreement.

### 3.2 Institutional presence and relevant networks

7. The applicant has a strong international presence through its portfolio companies and investments based in Israel, Peru, Singapore, Thailand and the United Kingdom of Great Britain and Northern Ireland covering activities in Asia, Latin and Central America, the Middle East and Africa. PCA has also been involved in climate change-related initiatives with partners such as R20 Regions of Climate Action, Ceres, Principles for Responsible Investment, the Global Impact Investing Network, Confluence Philanthropy, the United States Agency for International Development (e.g. Power Africa) and the Tony Blair Africa Governance Initiative.

8. In order to advance the objectives of GCF, PCA and its affiliates intend to continue investing in industries and companies that address both climate change mitigation and adaptation, with an expanding focus on sustainable economic development in the least developed countries, small island developing States and African countries. The applicant intends to address, measure and continue investment in the following areas for both mitigation and adaptation:

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<sup>4</sup> As per annex I to decision B.08/02, “large” is defined as “total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of above US\$ 250 million for an individual project or an activity within a programme”.

<sup>5</sup> For example, the fiduciary functions and environmental and social risk category.

- (a) Investing in renewable energy solutions that help governments and businesses avoid lock-in of long-lived, high-emission infrastructure;
- (b) Increasing the number of households with access to low-emission energy;
- (c) Increasing the use of low-carbon transport;
- (d) Improving waste management, thereby contributing to greenhouse gas (GHG) emission reductions;
- (e) Reducing vulnerability by enhancing adaptive capacity and resilience for populations affected by the proposed activity, focusing in particular on the most vulnerable population groups and applying a gender-sensitive approach;
- (f) Strengthening institutional and regulatory systems for climate-responsive planning and development; and
- (g) Strengthening awareness of climate threats and risk reduction processes (e.g. through environmental and social impact assessments conducted for PCA investments and collaboration with applicable local authorities).

### 3.3 Track record

9. As a private alternative asset management and private equity firm, the applicant targets the provision of scalable, replicable, innovative, financially sustainable and viable solutions to companies focused on, among other things, climate change mitigation and adaptation. In addition, the applicant has taken a leadership role in global environmental and social initiatives that drive a potential paradigm shift through knowledge-sharing among multi-stakeholder groups. It has also worked closely with municipal governments in developing strategies to achieve aggressive climate change goals.

10. The applicant's track record in financing climate change-related investments covers projects in Africa, Asia Pacific, Europe, Latin America and North America. The applicant has undertaken equity investments and raised five private equity funds, four of which have invested more than USD 250 million with a focus on the sustainability and wellness, building technologies and energy solutions, biofuels, built environment and agriculture sectors. The Secretariat has reviewed the relevant track record provided by the applicant to demonstrate its experience with large-sized programme activities (e.g. investees/portfolio companies).

11. In addition, the applicant provided the following project examples in its original accreditation application:<sup>6</sup>

- (a) USD 50 million to USD 100 million (loans and equity) in sustainable tourism in multiple countries in Africa, Asia Pacific, Europe and Latin America;
- (b) USD 50 million to USD 100 million (equity and guarantees) in liquid fuels storage, distribution and marketing in Peru, including operations of a private port facility and biodiesel production facility; and
- (c) USD 50 million to USD 100 million (equity and guarantees) in a medical nutrition company that addresses prevalent health ailments due to poor water quality and availability, particularly in developing countries.

### 3.4 Potential support for direct access entities

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<sup>6</sup> See annex XI to document GCF/B.21/17 titled "Consideration of accreditation proposals".

12. The applicant intends to leverage its experience to help subnational, national and regional implementing entities and intermediaries to raise awareness about opportunities and requirements of GCF accreditation through workshops. In addition, it intends to continue to engage with such entities and intermediaries to identify opportunities to support their objectives through day-to-day business. The applicant also aims to explore opportunities to develop collaborative projects with such entities and to provide additional resources and capacity-building support.

13. The applicant has been committed to working with subnational, national and regional implementing entities and intermediaries globally to identify sustainable economic development and wellness opportunities. It aims to continue providing policy, technical and financial advice to national and subnational governments, financial institutions, technology providers, academic institutions, corporations and non-governmental organizations to implement low-carbon economic development projects in sectors that measurably reduce GHG emissions.

## II. Stage II accreditation review assessment

14. The applicant applied under the normal track accreditation process. Its application has been assessed by the AP during Stage II (Step 1) against the standards of GCF in accordance with the accreditation requirements and GCF policies and standards identified in paragraph 5 above.

15. As per decision B.24/13, paragraph (a), and annex XXVI thereto, the applicant will be assessed against the GCF Gender Policy adopted in decision B.24/12, paragraph (e), and annex XXIII thereto at the time of re-accreditation to GCF. Any projects/programmes to be considered by GCF following the adoption of the updated Gender Policy will be required to be in line with the principles and requirements of the policy.

16. As part of this assessment, the AP consulted the website of the United States Securities and Exchange Commission (SEC) to review the applicant's ADV filing on 30 March 2020.

### 2.1 Fiduciary standards

#### 2.1.1 Basic fiduciary standards: key administrative and financial capacities

17. This applicant is seeking an upgrade in its accreditation scope to the "large" size category of projects/programmes it can present for GCF consideration. The applicant's strategy, governance structure and organization are the same as at the time of its original accreditation application. This assessment focuses on the applicant's policies, procedures and track record and their capacity to manage large-sized projects/programmes, such as private equity funds, as well as large-sized portfolio company investments.

18. The applicant's capacity to meet the requirements of the GCF basic fiduciary standards on key administrative and financial capacities was demonstrated at the time of its original accreditation application.

19. To support its application for an upgrade in the project/programme activity size category for which it is accredited, the applicant provided detailed portfolio reports for three private equity funds that it is currently managing. All three funds fall within the range of large-scale programmes; specifically, the average capital invested by these funds far exceeds the "large" size threshold. The applicant also provided evidence of its track record in managing large-sized portfolio company investments.

20. As stated in the original accreditation recommendation by the AP, the applicant's governance structure is appropriate for the management of a private equity fund. The regulatory requirements of the relevant federal regulations of the United States of America, enforced under SEC supervision, provide the framework for effective governance of investment advisers such as the applicant. The applicant's track record demonstrates that its governance structure is adequate for effective oversight and management of large-sized private equity funds and large-sized portfolio company investments.

21. The applicant's main governance bodies are the Investment Committees of each of the funds and the applicant's Compliance Committee. The Partners and Principals are members of the Investment Committees for each of the funds managed by the applicant. The applicant's track record demonstrates that the operation of its oversight committees and the supervision exercised by its Principals are appropriate for the management of large-sized funds and large-sized portfolio company investments.

22. As concluded in the original accreditation recommendation, the applicant's strategic planning capacity, as well as its accounting systems, audit arrangements, and payment and disbursement systems, are appropriate for the management of private equity funds. The applicant's strategic planning capacities are appropriate for the design and management of large-sized private equity funds. To complement this upgrade application, the applicant provided updated audited financial statements for one of the private equity funds it manages, as well as examples of its track record with large-sized portfolio company investments.

23. For the assessment of its upgrade application, the applicant also provided updated copies of its accounting manual (dated February 2020) and of its compliance manual (dated August 2019), which establish the general guidelines for an internal control framework, based on both the fiduciary obligations pertaining to the third-party assets it manages and compliance with United States federal regulatory requirements. The applicant's internal control framework is appropriate for a private equity fund manager. Furthermore, the applicant's track record demonstrates that its internal control framework is appropriate for the management of large-sized private equity funds and large-sized portfolio company investments.

24. The applicant has fulfilled the condition pertaining to procurement established in the original accreditation recommendation and adopted in decision B.21/16 to accredit PCA. The applicant's procurement policy and procedures satisfy the relevant requirements of the GCF basic fiduciary standard on key administrative and financial capacities, including for large-sized private equity funds and large-sized portfolio company investments.

25. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF basic fiduciary standards on key administrative and financial capacities. Furthermore, these policies, procedures and capacity are appropriate for the management of large-sized private-equity funds and large-sized portfolio company investments.

#### 2.1.2 **Basic fiduciary standards: transparency and accountability**

26. The applicant's updated compliance manual includes the applicant's code of ethics, which has been developed based on the requirements of the private equity industry and the requirements of the SEC. The Advisers Act requires that the applicant's code of ethics establishes a fiduciary duty towards clients, regulatory compliance, disclosure of securities transactions, and reporting of violations of the code of ethics. It also requires the code of ethics to be communicated to all relevant parties. Additionally, the applicant has included provisions for the protection of whistleblowers, as well as periodic training on and assessment of the knowledge of relevant parties on the code of ethics. The applicant's Compliance Officer provides guidance on specific ethical questions that may arise.

27. The applicant's framework for communication and management of prohibited practices is described in the original accreditation recommendation. Additionally, the applicant's regulatory framework, enforced under SEC supervision, the applicant's compliance manual and the contractual agreements of the private equity funds managed by the applicant include and cover the requirements of the GCF Policy on Prohibited Practices.<sup>7</sup>

28. The applicant's capacity to effectively undertake investigations is described in the original accreditation recommendation. Given that the applicant has a track record of managing large-sized private equity funds, and based on the original accreditation recommendation, the AP finds that the applicant's investigations capacity is appropriate for large-sized private equity funds and large-sized portfolio company investments.

29. An important enhancement implemented after the original accreditation is the applicant's decision to outsource a critical component of its anti-money-laundering and countering the financing of terrorism (AML/CFT) activities to a leading-expert service provider. This third-party service provider was retained by the applicant to undertake the due diligence required for onboarding and continuous monitoring of parties that invest in the private equity funds managed by the applicant. The third party undertakes its due diligence exercises based on the guidance provided by the Financial Crimes Enforcement Network, the Bank Secrecy Act, the United States Patriot Act and the guidance notes provided by expert professional associations. Additionally, the applicant provided further detail of the procedures and technology used to authorize, issue and monitor wire transfers. The applicant's AML/CFT capacity, as mentioned in the original accreditation recommendation, is appropriate for effective management of AML/CFT risks. The outsourcing of investor due diligence and monitoring to an expert third party further strengthens the applicant's capacity.

30. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF basic fiduciary standards on transparency and accountability, the GCF Policy on the Protection of Whistleblowers and Witnesses,<sup>8</sup> the GCF Policy on Prohibited Practices and the GCF AML/CFT Policy.<sup>9</sup> Furthermore, the applicant, in its original accreditation application and in this upgrade application, has demonstrated that its policies, procedures and track record are fit for the management of large-sized private equity funds, as well as large-sized investments in portfolio companies.

### 2.1.3 Specialized fiduciary standard for project management

31. The original accreditation recommendation stated that: "In the case of this applicant, a 'project' is understood for the purpose of assessing its project management capabilities in the accreditation review to be the identification of an investment opportunity, the due diligence process, the investment decision and the management of the investment (including an appropriate investment exit strategy)."

32. The original accreditation recommendation concluded that the applicant has the capacity to design, prepare and successfully manage a medium-sized private equity fund. Furthermore, the size of the investments made in portfolio companies is expected to remain, on average, the same under a large-sized fund as is the case under a medium-sized fund; the difference is that more financial resources will be available to increase the number of investments that can be made. The capacity demonstrated by the applicant during the original accreditation application, together with evidence of the applicant's track record as reviewed by the AP during this upgrade accreditation application, validate the applicant's capacity and experience to manage large-sized private equity funds and large-sized portfolio company investments.

<sup>7</sup> Decision B.22/19 and annex XIV thereto.

<sup>8</sup> Decision B.21/25 and annex II thereto.

<sup>9</sup> Decision B.18/10 and annex XIV thereto.



33. The applicant's capacity to design, prepare and successfully manage private equity funds was demonstrated during the original accreditation application. Considering that the size of the investments made in portfolio companies is expected to remain, on average, the same under this upgrade accreditation application as under the original accreditation recommendation, the AP concludes that the capacity demonstrated by the applicant during the original accreditation application is appropriate for a large-sized private equity fund. The applicant provided two copies of portfolio investment proposals as part of this upgrade application that reinforce the conclusion of the original accreditation recommendation pertaining to the applicant's capacity to evaluate, structure and manage equity investments in portfolio companies.

34. The applicant's capacity to exercise effective oversight and control over the investments it executes was assessed during the original accreditation assessment. In its upgrade application, the applicant provided information on five private equity funds it manages or has managed in the past. As at the third quarter of 2019, the average total resources invested in portfolio companies by each of the funds managed by the applicant, for which detailed information was provided, exceeded USD 250 million. In this upgrade application, the applicant provided examples of investments that demonstrate its experience with large-sized portfolio company investments.

35. The applicant's capacity to monitor private equity fund investments was addressed in the original accreditation recommendation. As part of this upgrade application, the applicant provided copies of recent investment portfolio reports that provide further evidence of the applicant's track record of managing large-sized private equity funds and its capacity to effectively monitor these portfolios. The investment portfolio reports demonstrate the applicant's capacity to effectively process aggregate fund (as well as investee company) data and generate managerial information required for appropriate decision-making by the relevant Investment Committees.

36. The applicant's capacity to effectively manage investments at risk and its capacity to implement corrective actions were demonstrated in the original accreditation application. For all approved investments, as part of the applicant's core business processes, permanent monitoring of investment performance, identification of risks and implementation of corrective actions are undertaken. The applicant's policies and procedures pertaining to investment management are designed for the effective management of risk and are suited to the management of large-sized investments.

37. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF specialized fiduciary standard for project management in relation to the management of large-sized private equity funds and large-sized portfolio company investments.

2.1.4 **Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

38. The applicant did not apply for accreditation for this standard at this time.

2.1.5 **Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees)**

39. The applicant, in the original accreditation application, demonstrated that it has the capacity to exercise appropriate due diligence to evaluate investments in portfolio companies. The policies and procedures it applies are appropriate for the effective management of private equity funds. The due diligence policies and procedures are fit for the management of a large-sized private equity fund, as well as for large-sized portfolio company investments.

40. During the original accreditation application, the applicant demonstrated its capacity and experience in deploying equity (as the main financial instrument), loans and guarantees. To prove its capacity to deploy equity, loans and guarantees at a large scale, the applicant provided evidence that demonstrates its capacity and its track record of managing large-scale private equity funds, as well as large-scale investments in portfolio companies.
41. In the original accreditation application, the applicant provided sufficient evidence to demonstrate that its portfolio management policies and procedures are appropriate for the management of a private equity fund. In this upgrade application, the applicant provided three updated investment portfolio reports that reaffirm its capacity to effectively manage these investments. The investment reports provided are for private equity funds that exceed the large-sized threshold, thus demonstrating the applicant's capacity and track record to support the large-sized upgrade that it is seeking through this upgrade application.
42. The relevant competencies and track record required for satisfying the specialized fiduciary standard for on-lending and/or blending, as assessed during the original accreditation application, remain appropriate for this upgrade application. In terms of the size upgrade, the applicant has provided sufficient evidence of its experience and capacity to manage large-sized private equity funds, as well as large-sized portfolio company investments.
43. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF specialized fiduciary standard for on-lending and/or blending for loans, equity and/or guarantees. Furthermore, the applicant, in its original accreditation application and in this upgrade application, has demonstrated that its policies, procedures and track record are fit for the management of large-sized private equity funds, as well as large-sized investments in portfolio companies.

### **III. Conclusions and recommendation**

#### **3.1 Conclusions**

44. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant meets the requirements of the GCF basic fiduciary standards, the GCF Policy on the Protection of Whistleblowers and Witnesses, the GCF Policy on Prohibited Practices, the GCF AML/CFT Policy, the GCF specialized fiduciary standard for project management and the GCF specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees with respect to a maximum "large" size category. This includes large-sized private equity funds and large-sized portfolio company investments.

#### **3.2 Recommendation on accreditation**

45. The AP recommends, for consideration by the Board, PCA for an upgrade in its accreditation type, as originally accredited in decision B.21/16, paragraph (b), and annex XI to document GCF/B.21/17, as follows:



(a) **Accreditation type:**

- (i) **Maximum size of an individual project or activity within a programme:** large (including micro,<sup>10</sup> small<sup>11</sup> and medium); and
- (ii) **All other criteria for which the applicant was accredited:**<sup>12</sup> no change.

46. The applicant has been informed of the recommendation for the accreditation upgrade, including the upgrade accreditation type, as identified in paragraph 45 above, and agrees to the recommendation.

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<sup>10</sup> As per annex I to decision B.08/02, “micro” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of up to and including US\$ 10 million for an individual project or an activity within a programme”.

<sup>11</sup> As per annex I to decision B.08/02, “small” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of above US\$ 10 million and up to and including US\$ 50 million for an individual project or an activity within a programme”.

<sup>12</sup> Decision B.21/16, paragraph (b), and annex XI to document GCF/B.21/17.